



Personnel Management

Washington, D.C. 20415

SEP 17 1983

In Reply Refer To

Your Reference

FERS RETIREMENT OFFICERS BULLETIN NO. 2

Military Service Deposits

Introduction

This Bulletin advises agencies of the provisions in the Federal Employees' Retirement System (FERS) concerning deposits for military service performed after 1956. Employees who will be automatically covered by FERS beginning January 1, 1987, have a new interest-free period, and the required deposit is 3% of military basic pay plus interest, instead of 7% plus interest as under Civil Service Retirement System (CSRS) rules.

Deposit Requirement

CSRS: Under CSRS, military service is generally creditable. However, most military retirees [see FPM Supplement 831-1, Subchapter S3-5 a.(1) for exceptions] are barred from receiving credit toward CSRS annuity unless they waive their military retirement pay.

Beginning in 1957, military service became subject to Social Security, and treatment of military service under CSRS depends on whether it was performed after December 31, 1956. A 1982 change in law also distinguishes between pre-October 1, 1982, hires and those employees who first became subject to CSRS on or after that date.

Employees first hired in positions subject to CSRS after September 30, 1982, can receive post-1956 military service credit only if they make a deposit covering the service. Employees hired in positions subject to CSRS before October 1, 1982, can receive credit for post-1956 military service without making the deposit, but will be subject to elimination of this service credit, if they become eligible (or would become eligible upon proper application) for Social Security old-age benefits at age 62. This group of employees can avoid the age 62 recomputation (or lowered computation of the initial rate, if retiring later) only if they make the deposit.

The deposit is made directly to the employing office. The amount of the deposit is 7% of the military basic pay for the period, plus interest. Interest is computed in



accordance with OPM instructions at a variable rate. (See Payroll Office Letter No. 85-10 of November 27, 1985.) Interest begins on October 1, 1985, or two years after the employee is first hired in a position subject to CSRS, whichever is later. However, since OPM's method of computing the deposit calls for adding interest only at the end of the year after it begins, no interest is charged if the deposit is paid in full by September 30, 1986, or within three years after first becoming subject to CSRS, if later.

FERS: Military service that would be creditable under CSRS is creditable under FERS, except that all post-1956 military service must be covered by a deposit to receive credit. Even if an employee covered by FERS was first hired before October 1, 1982, post-1956 military service cannot be credited unless the required deposit is completed. The deposit is to be made directly to the employing agency before retirement. The amount of the deposit is 3% of the military basic pay for the period, plus interest. Interest is computed at the same variable rate as applicable to CSRS deposits. Interest begins on January 1, 1989, or two years after first becoming subject to FERS, whichever is later, but, as under CSRS, no interest will actually be charged if the deposit is completed before the end of the year after interest begins.

Employees Subject to FERS Deposit Rules

The following categories of employees are subject to the FERS rules on military deposits:

- (1) employees who are automatically subject to FERS on January 1, 1987 (see FERS Retirement Officer Bulletin No. 1);
- (2) employees who are automatically covered by FERS upon reentering service after January 1, 1987 (a FERS Retirement Officer Bulletin will be issued in the near future on this subject); and
- (3) employees who elect FERS coverage sometime after June 30, 1987, if they have less than five years of civilian service (not counting any civilian service covered simultaneously by both Social Security and CSRS after December 31, 1983) before the effective date of the election. For example, if an employee who had four years of civilian service separated in 1981, was rehired in August 1984 under CSRS and Social Security, and transferred to FERS in July 1987, the employee's



military service would be treated under FERS rules. This is because the employee had less than five years of civilian service which was not under both CSRS and Social Security when he elected FERS coverage.

Employees in these categories pay a deposit of 3% (instead of 7%) of military basic pay, have the new extended interest-free period and are not distinguished as to whether they first became subject to CSRS before October 1, 1982. Also, military service cannot be credited unless the deposit is completed before retirement.

Employees Subject to CSRS Deposit Rules, FERS Conversions

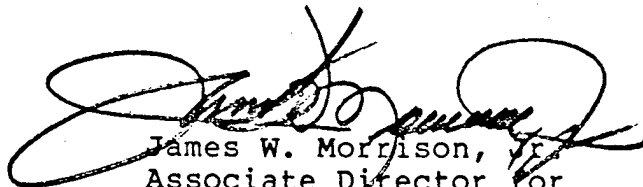
Employees not subject to the FERS deposit rules for military service remain subject to the rules under CSRS. For them, the deposit is 7%, the interest-free period is unchanged, and those first hired subject to CSRS on and after October 1, 1982, are distinguished from those who became subject to CSRS earlier, as explained above. Employees who convert to FERS [other than those described in (3) above] continue to be under the CSRS rules for military deposits, as well as CSRS rules for the annuity computation.

Refunds of Military Service Deposits

If an employee subject to the FERS deposit rules has already made a deposit under CSRS rules a refund is payable beginning in 1987. The refund will be equal to the difference between the 7% deposit and the 3% deposit. OPM will provide processing forms and instructions to implement the refund provisions as soon as possible.

Inquiries

Questions on the matters discussed in this Bulletin may be directed to our Advisory Services Office at (202) 632-5582. Please note that there are many FERS matters which must be addressed in regulation and that our ability to answer specific questions is consequently limited. The Advisory Services Office is not prepared to address the full range of FERS issues at this time.


James W. Morrison, Jr.
Associate Director for
Retirement and Insurance

